

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name LAKE MICHIGAN SHORELINE WATER & SEWAGE TREATMENT AUTHORITY	County BERRIEN
Audit Date 9/24/04	Opinion Date 9/24/04	Date Accountant Report Submitted to State: 12/21/04	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

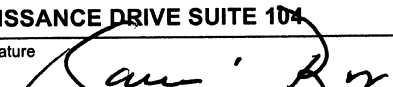
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) BARNES & ROSS CPAs P.C.			
Street Address 500 RENAISSANCE DRIVE SUITE 104	City SAINT JOSEPH	State MI	ZIP 49085
Accountant Signature 		Date 12/21/04	

LAKE MICHIGAN SHORELINE
WATER AND SEWAGE TREATMENT AUTHORITY

FINANCIAL STATEMENTS

JUNE 30, 2004

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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Lake Michigan Shoreline
Water and Sewage Treatment Authority
Stevensville, Michigan

We have audited the accompanying general purpose financial statements of Lake Michigan Shoreline Water and Sewage Treatment Authority, as of and for the year ended June 30, 2004, as listed in the table of contents. These general purpose financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of Lake Michigan Shoreline Water and Sewage Treatment Authority, as of June 30, 2004, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.


BARNES & ROSS

September 24, 2004

LAKE MICHIGAN SHORELINE
WATER AND SEWAGE TREATMENT AUTHORITY

BALANCE SHEET
JUNE 30, 2004

ASSETS

	<u>General Fund</u>
Cash	<u>\$135,599</u>
Total assets	<u><u>\$135,599</u></u>

LIABILITIES AND FUND BALANCE

Liabilities:	
Accounts payable	\$ 37,685
 Fund balance	 <u>97,914</u>
Total liabilities and fund balance	<u><u>\$135,599</u></u>

See accompanying notes to financial statements.

LAKE MICHIGAN SHORELINE
WATER AND SEWAGE TREATMENT AUTHORITY
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2004

	<u>General Fund</u>
Revenues:	
Contributions from local units	\$835,150
Interest	889
Other	<u>10,000</u>
Total revenues	<u>846,039</u>
Expenditures:	
Compensation	8,245
Engineering	78,055
Insurance	3,175
Professional fees	9,031
Repairs and maintenance:	
General	33,896
Mowing	5,500
Office supplies	1,021
Capital outlay	847,296
Miscellaneous	<u>1,294</u>
Total expenditures	<u>987,513</u>
Deficiency of revenues over expenditures	(141,474)
Fund balance - beginning of year	<u>239,388</u>
Fund balance - end of year	<u>\$ 97,914</u>

See accompanying notes to financial statements.

LAKE MICHIGAN SHORELINE
WATER AND SEWAGE TREATMENT AUTHORITY

STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2004

	General Fund		
	Budget	Actual	Variance Favorable (Unfavorable)
Revenues:			
Contributions from local units	\$835,150	\$835,150	\$ -
Interest	-	889	889
Other	-	10,000	10,000
Total revenues	<u>835,150</u>	<u>846,039</u>	<u>10,889</u>
Expenditures:			
Compensation	11,500	8,245	3,255
Engineering	40,000	78,055	(38,055)
Insurance	3,500	3,175	325
Professional fees	33,000	9,031	23,969
Repairs and maintenance:			
General	40,000	33,896	6,104
Mowing	6,000	5,500	500
Office supplies	1,000	1,021	(21)
Capital outlay	700,000	847,296	(147,296)
Miscellaneous	150	1,294	(1,144)
Total expenditures	<u>835,150</u>	<u>987,513</u>	<u>(152,363)</u>
Deficiency of revenues over expenditures	-	(141,474)	(141,474)
Fund balance - beginning of year	<u>239,388</u>	<u>239,388</u>	-
Fund balance - end of year	<u>\$239,388</u>	<u>\$ 97,914</u>	<u>\$(141,474)</u>

See accompanying notes to financial statements.

LAKE MICHIGAN SHORELINE
WATER AND SEWAGE TREATMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES.

A. REPORTING ENTITY.

The Lake Michigan Shoreline Water and Sewage Treatment Authority constitutes a reporting entity as defined in GASB Statement 1. The Authority is incorporated under the provisions of Act 233 of the Public Acts of Michigan of 1955. The purpose of the Authority is to acquire, improve, extend and operate a water supply and sewage disposal system for the benefit of the residents of the Townships of St. Joseph, Lincoln, Royalton and the Villages of Shoreham and Stevensville.

B. FUND ACCOUNTING.

The accounts of the Authority are organized on the basis of funds or account groups, each of which is considered to be a separate accounting entity. The operation of each fund or account group is summarized by providing a separate set of self-balancing accounts, which includes their assets, liabilities, fund balance, revenues and expenditures.

The Authority maintains only one fund. The General Fund is the general operating fund for the Authority and is used to account for all financial resources.

C. BASIS OF ACCOUNTING.

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The General Fund is accounted for using the modified accrual basis of accounting. Revenues are recognized when they become measurable and available.

Revenues are generally considered available when they are received in cash (unless legally restricted for some future period) or when expected to be collected soon enough after year-end to pay liabilities of the current period.

Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred, provided the liability normally would be liquidated with expendable available financial resources.

LAKE MICHIGAN SHORELINE
WATER AND SEWAGE TREATMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2004

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONCLUDED.

D. BUDGETS AND BUDGETARY ACCOUNTING.

The Board prepares and adopts an annual budget for the Authority's proposed revenues and expenditures for the next fiscal year. Budgets are submitted by each member municipality on or before January 1 of each calendar year and must be approved by resolution of each member municipality.

Budget amounts are reported in the financial statements as originally adopted or as amended by the Authority Board.

E. USE OF ESTIMATES.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY.

EXCESS OF EXPENDITURES OVER APPROPRIATIONS.

Public Act 621 of 1978, Section 18(1) as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

During the year ended June 30, 2004, the Authority incurred expenditures in excess of amounts appropriated in the General Fund as follows:

<u>Fund</u>	<u>Appropriation</u>	<u>Expenditure</u>	<u>Variance</u>
General	\$835,150	\$987,513	\$(152,363)

LAKE MICHIGAN SHORELINE
WATER AND SEWAGE TREATMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2004

Note 3. DEPOSITS.

Deposits are carried at cost. Deposits are at one bank in the name of Lake Michigan Shoreline Water and Sewage Treatment Authority. Act 217, P.A. 1982, authorizes the Authority to deposit and invest in the accounts of Federally insured banks, insured credit unions, savings and loan associations and bonds and other direct obligations of the United States. Michigan law prohibits security in the form of collateral, surety bond, or other forms for the deposit of public money. An Attorney General's opinion states that public funds may not be deposited in financial institutions that do not have a branch location in Michigan. The Authority's deposits are in accordance with statutory authority at June 30, 2004.

The carrying amount of the Authority's deposits with financial institutions was \$135,599 and the bank balance was \$135,894. The bank balance is categorized as follows:

Amount insured by F.D.I.C.	\$100,000
Amount in excess of F.D.I.C.	<u>35,894</u>
Total deposits	<u><u>\$135,894</u></u>

Note 4. REVENUES.

The amounts contributed by members of the Authority for the June 30, 2004 fiscal year-end are as follows:

Lincoln Charter Township	\$473,491
St. Joseph Charter Township	291,525
Royalton Township	<u>70,134</u>
Total revenues	<u><u>\$835,150</u></u>

Note 5. WATER SERVICE AGREEMENT.

The Lake Michigan Water and Sewage Treatment Authority executed an agreement to provide water from the City of St. Joseph for sale to users located within the corporate limits of the Authority's members. The agreement also provides for a surcharge to be collected on the gross revenue and is retained by the Authority members.

LAKE MICHIGAN SHORELINE
WATER AND SEWAGE TREATMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS - CONCLUDED
FOR THE YEAR ENDED JUNE 30, 2004

Note 6. RISK MANAGEMENT.

The Authority is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (workers' compensation). The Authority has purchased commercial insurance to provide coverage from such claims.

Note 7. NEW REPORTING STANDARD.

In June, 1999, the Governmental Accounting Standards Board (GASB) issued Statement 34, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments". This statement establishes new financial reporting requirements for State and Local governments throughout the United States. When implemented, it will require new information and restructure much of the information that governments have presented in the past. Comparability with reports issued in all prior years will be affected. The Authority is required to implement this standard for the fiscal year June 30, 2005. The Authority has not yet determined the full impact that adoption of GASB Statement 34 will have on the financial statements.

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October 22, 2004

To the Members of the Board
Lake Michigan Shoreline Water and Sewage Treatment Authority
Saint Joseph, MI 49085

In connection with the audit of the Authority's financial records for the year ended June 30, 2004 we offer the following comments and recommendations:

1. When it becomes apparent that expenditures are going to exceed amounts appropriated, Public Act 621 requires that the budget be formally amended. Expenditures exceeded the amount appropriated during the current year as a result of not amending the budget.
2. The budget should follow the format required by the Uniform Budget Act when it is submitted for adoption to the Board (noted 6/30/03).
3. QuickBooks should be updated so that prior year earnings close out to the proper account. The fund balance amount should be reclassified to the retained earnings account and then the retained earnings account name should be changed to "fund balance" (noted 6/30/03).

This report is intended solely for the information and use of the Authority Board, its management and the State of Michigan's Local Audit Division.

We appreciate the courtesy and cooperation extended to us by the officials of the Authority. If you have any questions or need assistance with any other matters, please feel free to contact us.

Very truly yours,


Barnes & Ross